BioSpectrum the business of Bio & Health Sciences

Year of consolidation

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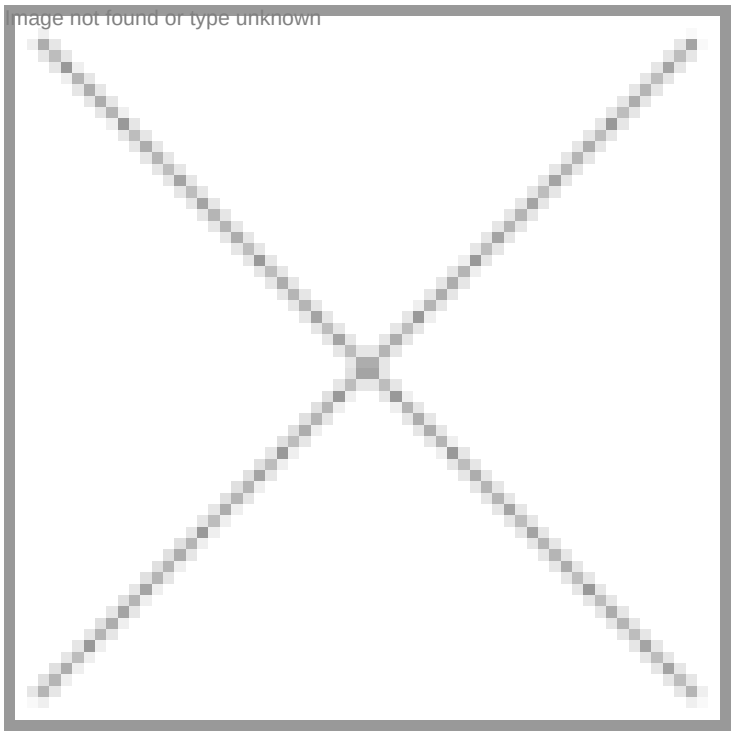
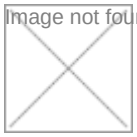


Year of consolidation

With the adoption of right business model, strategy and a wave of consolidations the global biotech industry continues to register good growth and gears up for competing in the new global marketplace.

The aggregate value of biotechnology drugs are set to grow 56 percent between 2008 and 2014, from $108 billion to $169 billion. This contrasts sharply with conventional chemistry drugs, which are projected to grow 5.6 percent in aggregate, with total sales forecast to be $565 billion in 2014 versus 2008 sales of $535 billion. According to market research firm EvaluatePharma, biotechnology drugs will account for 50 percent of the top 100 drug sales by 2014, up from just 28 percent in 2008. This has offered hope for the future prospects of the industry, as the first generation of biotechnology drugs to reach commercial maturity are unlikely to be subjected to the same intensive generic competition as small molecule drugs. This has certainly provided biotechnology-focused companies with a more stable base from which to build long-term growth. Towards this, the large pharma companies are getting dependant upon alliances and in-licensing to gain access to technologies and new molecular entities from the biotech players.

The year 2008-09 has been a year of consolidations that is changing the face of the industry. Whether it is Ranbaxy-Sankyo deal, Pfizer's acquisition of Wyeth, Merck's purchase of Schering-Plough or Genentech's deal with Roche, the strategy is all the same i.e, to build a robust business model for competing in the new global marketplace. With many blockbuster drugs going off-patent in the next few years, innovation is one area we all have been focusing on. This has resulted into partnering or acquiring newer compounds from smaller, independent, innovation-focused biotech companies. In 2008, bio-pharma companies spent more than $60 billion on R&D worldwide.



Global industry performance

According to Ernst & Young's "Global Biotechnology Report 2009," the global biotechnology industry delivered a solid financial performance in 2008 despite worldwide economic turmoil. According to the report, there are four sweeping paradigm shifting trends that should lead to new, more sustainable ways of funding drug development: a wave of generic drugs based on today's top blockbusters, the expansion of personalized medicine, fundamental healthcare reform in the United States, and the continued globalization of the industry. "This is not business as usual for the biotech industry," said Glen Giovannetti, Ernst & Young's Global Biotechnology Leader. "Unlike prior funding droughts, this crisis is systemic, deep and protracted. To thrive in this environment, firms will need to bring the creativity that has long been the industry's hallmark in establishing more durable models for funding innovation."

New pathways to sustainability

The challenge for the industry, according to Glen Giovannetti, is turning an existential threat into a Darwinian opportunity.The potential solution lies in four paradigm-shifting trends that promise to accelerate the transition to sustainable business models:

Generics: Generics based on today's top blockbusters should loosen governments' and insurers' budgetary constraints and mitigate pricing pressures on innovative drugs, permitting better margins.

US healthcare reform: The potential shift toward universal healthcare coverage in the world's largest drug market will likely incorporate pay-for-performance in reimbursement decisions. Incentives for true innovation should help biotechs sustain returns.

Personalized medicine: Personalized medicine will increase the relative value of research and early development—biotech's traditional strengths—giving biotechs more bargaining power and better valuations. Meanwhile, more efficient drug development will lower R&D costs, making it easier for firms to make the journey to self-sufficiency.

Globalization: Growing strengths in emerging markets will facilitate creative solutions—from new "win-win" ways of allocating increasingly valuable ex-US rights to creative alliances and new sources of capital. Meanwhile, Asian business models could provide solutions for struggling Western firms.

"But these trends will also bring new market pressures—from a higher bar on reimbursement to new sources of competition. "To seize the opportunities in these four drivers, companies need to be proactive," said Giovannetti. "Firms should understand how these trends impact them, prepare for them, and where possible, help shape them."

Regional performance

Although lack of capital fund in 2008-09 has been an issue, but with most of the countries today having well-developed biotechnology programs coupled with right strategy could overcome the financial crisis and went ahead registering good growth. According to E&Y, revenues of US public biotechs grew by 8.4 percent in 2008, down from 11.3 percent in 2007. The US publicly traded industry posted an aggregate net profit of $0.4 billion for the first time. Despite the crisis, venture capital raised in the US reached $4.4 billion in 2008—the second-highest total in history, behind only the record $5.5 billion raised in 2007. Europe registering a better performance, revenues of public biotechs increased 17 percent to €11.2 billion but capital raised by European biotechs fell from €5.5 billion in 2007 to less than €2 billion in 2008.

Coming to Asian biotech industry performance, the Asia Pacific biotech revenues grew by 25 percent in 2008, led by strong growth in Australia. In Australia, public-equity funding fell to levels not seen since 2002. There were a handful of IPOs in Japan and China and strong private-equity funding growth in India.

According to the Scientific American report released at BIO 2009, countries like Brazil, China, India, Singapore, Denmarkand Israel have emerged with enormous bioscience potential. While the US retains its preeminent position in the biotechnology sector overall in terms of innovation capacity, it doesn't top in every category. Israel leads when it come to foundations support, i.e., how much business and government expenditures are earmarked annually for biotech infrastructure development. Israel has the greatest business expenditures on R&D as a proportion of GDP than any other country. Other interesting countries include Singapore, which has the most post-secondary science graduates per capita, followed by Ireland and Australia. And in 2008, Iceland is described as having high biotech intensity, a measure of the amount of commercial biotech activity. Iceland has the greatest overall intensity, it has the most public companies per capita followed by Denmark and the most public company employees per capita followed by Ireland.

Government support

As investments in most aspects of biotech and biomedicine are likely to pay-off over the long haul, the governments are playing a significant role and coming up with some of the most aggressive programs to support biotech in the respective countries. Year 2008-09 has been good in terms of government support and policies. It all started with President Obama reversing restrictions that former President George W Bush imposed on federal funding for stem cells in 2001. And in a move

signaling the beginning of a new age in stem cell research, the Food and Drug Administration (FDA) approved the first-ever clinical trial of stem cell therapy on human subjects. Joining the league, the Drug Controller General of India (DCGI) too gave its nod to a proposal on stem cell-based research for human clinical trials in India. Introduction of a regulatory pathway for biosimilars in the US, the Australian government approving field trials of GM Canola and the Taiwan government establishing a $1.7 billion venture capital fund with the aim of turning the island country into a biotech hub are yet other developments in this direction. Thus looking at the positive impact of the recent upsurge in M&A activity, evolved strategies paired with good government support, the future prospects of the industry can be assessed to sustain good growth.

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